

THE STUDY OF MICROSTATES

Philippe Hein*

The purpose of this paper is to review the main contributions to the study of microstates with particular reference to economic literature. It concludes that, although there is a growing interest in the subject, further work in this area is needed and could lead to fruitful results with wider applications.

The definition of small size is of course a relative concept, and it is generally agreed that the use of a single variable for this purpose is too narrow a conception. However, the common factor used by almost all studies which have analyzed the concept of small countries (or small islands) in economic and social terms is the size of the population. Other factors such as energy consumption or even self-perception have been envisaged. Some of the thresholds proposed in this respect are briefly summarized in the Appendix following this paper. For the present discussion on microstates an upper cut-off point of around one million population has been arbitrarily taken.

In an overview of the history of development economics made at a session of the American Economic Association in December 1982 Streeten noted that there had been "a move towards a country typology, regarded as useful from the point of view of the application of policies", and listed "country size (measured by population)" as the first of the criteria in this typology [34,p.877].

It is true that in analyses of development problems, care is often taken not to group together all developing countries indiscriminately. Thus categories such as "petroleum exporting countries", "newly industrialized countries", "least developed countries", "land-locked developing countries" and "island developing countries" have gained a certain measure of acceptance. Although the "Group of 77" in its diplomatic activity is careful in maintaining the principles of solidarity and indivisibility of the Third World, the last three named sub-categories, two of them geographical rather than economic or social in nature, have had their problems specifically highlighted in various United Nations resolutions, notably in the International Development Strategy for the Third United Nations Decade [United Nations 1980]¹.

*Dr, Director of UNCTAD's Special Programme for the Least Developed, Land Locked and Island Developing Countries, Geneva, Switzerland.

¹ "Most severely affected countries" are also mentioned.

That country size as such is generally recognized as a key variable in the development process is less certain. The opposite contention that "the problem of size in economic development has been neglected in both liberal and socialist development theory" [17, p. 79] is probably closer to reality. Even Schumacher, attached as he was to small sizes, appeared to deny the relevance of country size, and wrote: "how can one talk about the economics of small independent countries? How can one discuss a problem that is a non-problem? There is no such thing as the viability of states or of nations, there is only a problem of viability of people" [28, p. 67].

Historically, due mostly to logistical and communication problems, the existence of very small states has been the rule rather than the exception. For instance, in 1648, the Treaty of Westphalia confirmed the division of Germany into three hundred and forty three independent states. Thus, the fact that most utopian writers (including Plato, Thomas More, Campanella, Charles Fourier, Robert Owen and Horace Greeley) envisioned their perfect societies as having populations limited to a few thousand as a maximum, can probably be attributed at least as much to what was considered as normal up to say the eighteenth century as to any conscious comparative study of the problems of size.

The rather eclectic and unorthodox contribution of Leopold Kohr [21],[22], [23] may be considered as a continuation of the utopian tradition, and constitutes a plea for the superiority of tiny societies; for instance, he considers that "economic optimum social size requires actually an adult membership of perhaps 1,000, or a full membership of 4,000 or 5,000 inhabitants - a little less than the population of present-day Andorra or Anguilla". The argument given for this is that this size allows for sufficient specialization, taking "shoemaking as a typical activity". In the end, in order to fulfil all its functions, convivial, economic, political and cultural, a society numbering 100,000 to 200,000 members is deemed sufficient, although he allows that under certain conditions the "absolute optimum limit" may be extended upwards to perhaps 15 million. However, Professor Kohr does not discuss in any detail the problems of microstates. To note the existence of "such flourishing contemporary states as Andorra, Monaco, San Marino, or Liechtenstein" [23, p. 17], the "matchless splendor" of former Italian city states [23, p. 105-106], the "thriving condition" of pre-Zollverein German entities [22, p. 35] or the transformation of Athens from "drabness" to "glory" in a brief spurt of unaided social growth in a single generation under Peisistratus [22, p. 62] may be effective ammunition against "sky-scraper economics", but it provides limited practical guidance to policy makers in Sao Tome or Vanuatu. In fact, one of Professor Kohr's few prescriptions to developing microstates is to "cease pleading with others to join them in common endeavor" [22, p. 19].

This advice sounds rather superfluous at a time when small entities like Anguilla, Belize, Gibraltar and Mayotte appear to have little wish to join or cooperate with their immediate neighbors, when Kiribati and Tuvalu (formerly Gilbert and Ellis) separated from each other and when the tendencies towards internal fragmentation within entities with already small

populations such as the Trust Territory of the Pacific and Netherlands Antilles appear irresistible.

The 1957 Conference of the International Economic Association in Lisbon on the "Economic Consequences of the Size of Nations" constitutes in many ways a beginning in the study of the question of country size. Professor Robinson noted that "many of us had a feeling of incredulity when we failed to discover a volume of antecedent literature such as the subject seemed to have deserved" [27 p. xiii]. Still, at this conference itself, the main focus was neither truly on microstates nor on developing countries which most of them presently are; in fact the two case studies of small economies presented at the conference were those of Belgium and Switzerland. In Kuznets' paper at the same conference, the analysis concerns the 80 states which were independent in 1952, of which 47, with populations of less than ten million, were considered small. Similarly, the later work of Chenery and Taylor [6] and of Chenery and Syrquin [7], using statistical techniques to make comparisons concerning size for the post World War II period, and which identify 35 small countries (defined as having populations of less than 15 million), is not directly concerned with the study of microstates, since the smallest of these countries - Costa Rica and Jamaica - have populations which, in the 1980s, exceed 2 million.

Following the Chenery approach, Dervis, de Melo and Robinson [10] have published what is probably the most comprehensive recent treatment of "general equilibrium models for development policy" wherein they attempt a typology of developing countries and states that "an important source of the variation (of the pattern of growth) is the degree of openness of the economy, which is itself influenced by country size, factor endowment, and past government policies" (p. 435). They specify for developing countries three "representative archetype economies" which have a number of distinguishing characteristics but are "quite similar in other non-essential aspects" (pp. 321, 433). However, they do not focus on country size as such, since all three archetypes are specified as having a total labour force of 10 million (p. 441).

The strongly self-reliant approach of Thomas [36] is fairly close to the "bootstrap" programs recommended by Kohr. His book is presented as a contribution to the strategies of "small dependent economies", but it deals in reality with "the vast majority of states in the present world order. They could possibly include all the developing societies (allowing for borderline cases) except China, India, Indonesia, Mexico, Brazil, Pakistan, and Bangladesh." (p. 34.) In the circumstances, his prescriptions which include for instance pursuit of "vertical integration of demand structure with domestic resource use" (p. 196) in industry, with emphasis on basic materials, machine tools, etc. can hardly be considered as having much practical application to the situation of microstates. Among academic institutions, the University of Amsterdam is the only one known to have established, in the late 1970's, a Small Economics Research Center and, when its Research Director recently published his thoughts on the subject

[3] he also commented on the "astonishing paucity of literature on the problems of very small economic systems".

The reason for the apparent neglect of the problems of microstates in many of the studies dealing with size is probably simply the lack of available data on truly small countries and territories. The alternative, chosen by Kohr, was to illustrate his thesis by qualitative references, including those from earlier centuries. It is with the emergence of very small countries of a new type, as a result of the decolonization process, that attention began to be devoted to them.

The fact that a large number of small countries and territories undergoing the decolonization process were within the former British Empire explains the interest in the substantial contributions to the study of microstates in Commonwealth circles. Coming under this category are the 1963 seminar of the Institute of Commonwealth Studies of the University of London on "problems of smaller territories" [1] and the 1972 Conference in Barbados on "development policy in small countries" [Selwyn, 30]. In fact since the Lusaka meeting of Commonwealth Heads of Government in 1979 a special program of action exists in favor of the smallest members of the Commonwealth, and it is under the aegis of the Commonwealth Secretariat that a conference on "problems and policies in small economies", chaired by Alister McIntyre, Deputy Secretary-General of UNCTAD, was held in 1981. Its report [20] must be considered as containing one of the most comprehensive analyses of economic problems of microstates available so far. Although this Conference did not come up with a theory of small economies, it was able to list "an impressive catalogue of disadvantages" [20, p. 6] and make a few broad suggestions for development policies. In the same vein, the 1983 Commonwealth Study Group on the world financial and trading system drew particular attention to the "distinct disadvantages" of "some twenty-odd mini-states (populations of less than half a million)" in pursuing their development efforts [8, p. 86].

Particular mention must also be made of the Conference on the island states of the Pacific and Indian oceans convened in 1979 by the Development Studies Center of Australian National University [32], and to the special issue of *World Development* [13] on islands. These two contributions are almost equally relevant to the study of microstates as to that of islands, and apart from economic issues, range over other areas such as demographic, ecology and social problems. Although both volumes are made up of a series of independent papers from which it is difficult to derive a unified and coherent approach, they have the merit of discussing a wide range of issues in the fields of demographics, health, the environment, sociology, politics and economics.

In the United Nations, in spite of numerous warnings to the effect that the organization would sooner or later run out of flagpoles [see for instance Plishke [26] and Fontaine [15], and contrary to what was done in the League of Nations (which prevented the entry of "lilliputian" states), it does not appear likely that any country will in the future be excluded from United

Nations membership because of its size. But, within the United Nations, attention to microstates has been limited and indirect.

In 1966, UNITAR did commission a fairly comprehensive study on very small states and territories with special reference to their participation in international affairs [38]. This recommended a number of options and the convening of a conference on problems of small states. However, the study has not led to any concrete action or even to a resolution mentioning the specific problems of microstates. The growing concentration on very small territories in the work of the "Special committee on the situation with regard to the implementation of the declaration of the granting of independence to colonial countries and peoples" of the General Assembly is simply a reflection of the fact that most of the larger territories have achieved independence, rather than an indication of any conscious attention being devoted by the United Nations to the problems of small size. In fact, the closest these problems have come to recognition in the United Nations is in the discussion on 'island developing countries', a discussion which has taken place primarily in UNCTAD, whose resolutions have been reinforced by the General Assembly. In the various resolutions since 1972 dealing with island developing countries², the "handicaps" of these countries have been identified as "smallness, remoteness, constraints in transport and communications, great distances from market centers, highly limited internal markets, lack of marketing expertise, low resources endowment, lack of natural resources, heavy dependence on a few commodities for their foreign exchange earnings, shortage of administrative personnel and heavy financial burdens" [UNCTAD Resolution 111(V) paragraph 1 - most other resolutions follow closely this formulation].

In other words, not only a smallness mentioned as the first distinguishing characteristic of island developing countries, but several of the other constraints highlighted are clearly direct consequences of small size. The overlapping of the two categories (island developing countries and small countries) is considerable, and it is often difficult to disentangle them. Thus, of the developing countries and territories with populations of less than 1 million listed in the UN Statistical Yearbook, there are relatively few [16] which are not islands, compared to sixty which are, whereas there are only ten developing island countries and territories whose population exceed one million. When comparing a sample of island countries with a corresponding sample of continental countries with respect to a number of social and natural characteristics, Dommen [12, p. 933] has concluded that "It seems plausible that size, rather than simply being surrounded by water, is a factor in a number of these relationships, including political harmony". Others have gone further; Selwyn for instance argues that islands are an "illegitimate extension of biological categories to social relationships"[31, p. 950].

² The latest in a series are General Assembly Resolution 39/212 of 18 December 1984 and UNCTAD Resolution 138(IV) of 2 July 1983.

On the other hand there are some characteristics (isolation, specific transport problems, biological endemism, cultural factors) which distinguish small islands from other microstates, and the United Nations is unlikely to depart from the category of "island developing countries", which is the mirror-image of another geographical category, the "land-locked developing countries", to which this institution appears quite firmly attached.

Governments of developing countries and the Non-aligned Movement in particular, have supported the United Nations' approach of special treatment for island developing countries. This is reflected in the Sixth and Seventh meetings of the Heads of Governments of the Non-Aligned Movement (Havana, 1979; New Delhi, 1983), the latter calling for a conference and the convening of a group of experts on island developing countries. It is interesting to note that when the first non-aligned meeting of experts met in Grenada in September 1983, it referred to "small" island developing countries, and that the recommendation adopted was explicitly on islands which were limited in population and land area [25]. Given the concentration of microstates and territories located in the Caribbean and the South Pacific, the considerable body of literature on these regions necessarily touches upon the problems of small size. In the Caribbean, special mention must be made of the work of Demas [9] as well as of other social scientists associated with the University of the West Indies, and of regional institutions such as CARICOM, the Caribbean Development Bank and the Organization of Eastern Caribbean States. In the Pacific, there are also active regional institutions (South Pacific Bureau for Economic Co-operation, the South Pacific Commission) and other academic centers (e.g. the University of the South Pacific, the Pacific Islands Development Program at the East-West Center in Hawaii) which continually study problems of that region. These regional/subregional studies contain a mine of information, which have however been insufficiently drawn upon for possible inter-regional generalizations on microstates.

To sum up, in spite of the increased realization of the importance of the size of countries, and of the growing literature on the problems of microstates, the assessment of the Commonwealth Secretary-General to the effect that "relatively little economic research has been done on the problems of small economies, and there is also lack of adequate statistical information and sustained empirical work on the past development experience" [20, Preface] remains valid. The available literature is not systematic enough.

It can be argued that the continued study of microstates is well worth pursuing particularly in the context of development. The first reason is for its own sake. The number of small countries and territories claiming and obtaining more political autonomy is likely to continue to increase, and it is necessary to understand better their mechanisms and the options open to them.

But there is also a second reason: such study may require in many ways an entirely different approach to problems of social, environmental, political

and economic management. In his influential article on "the limitations of the special case", Seers [29] had rightly pointed out that most of the theories of development implicitly assumed the institutional context of large industrialized countries (typically the United States or the USSR) which bear little resemblance to the reality of developing countries. In this context the microstates present extreme cases at the other end of the spectrum in many respects. To take an example from economics, it is a well established fact that in very small economies the importance of trade is overwhelming - imports actually exceeding GNP in a number of cases. Yet the work of major economists often either neglect trade altogether or treat it as a secondary factor. Thus, "the general equilibrium models of Walras, van Noming, Leontief, Samuelson and others customarily omit the elements which would lead to differences in growth rates: limited natural resources, ... economies of scale and even international trade" [Chenery, 5, p. 625]; and "it is common practice, in teaching, to begin with the case of a closed economy, then later to go on to imports and exports, and balances of payments. Keynes was just giving what corresponded to the first part of the course; he was leaving it to others to fill in the remainder" [18, p. 21]. It follows that the theories of these authors - on which much of economic theory and teaching is still based - are of least relevance to problems of microstates, and could even be misleading when applied to them. It is consequently necessary to use very different approaches. For instance any study (or teaching) of microstates' economics would be justified in starting with a focus on international trade and the external sector and treating the domestic economy as a mere dependent appendage. Similarly, the usual distinction between macro-economics and micro-economics is not very helpful in the study of very small countries. It is most probable that in other fields (politics and public administration, defence, demographic, participation in international affairs, culture) the study of microstates would require a departure from standard approaches and even the forging of new concepts. Theories and concepts thus developed could throw light not only on the problems of microstates themselves, but help in the understanding of issues applicable to the whole range of countries which lie somewhere between the extreme archetypes of microstates on the one hand, and the large countries of the world, on the other.

APPENDIX

DIFFERENT VIEWS OF SMALLNESS

1. *High population cut-off point.*

Among those who have proposed a rather high cut-off point to identify small countries are:

- *Kuznets* (1960): 10 million population.
- *Demas* (1965): 5 million population, with a usable land area of 10 to 20 thousand square miles.
- *Chenery and Taylor* (1968): 15 million population.
- *Taylor* (1971): list 74 territories as "micro- territories". Upper limits are 2,928,000 population; 142,822 sq. km. area; \$1,582 million (1965/66) GNP.
- *Chenery and Syrquin* (1975): 15 million population.
- *Paschal* (1977): "small states" are classified in two groups: the upper group has populations ranging from 1 million to 5 million. (For the other proposed groupings see below.)
- *Kohr* (1977): 12 to 15 million population constitute the absolute (upper) limit to which a society can be extended "without adversely affecting the optimum performance of its functions" (for optimum size see below).
- *Jalan* (1982): population: 5 million; arable land area: 25,000 sq. km.; GNP: \$2 billion (1977); also proposes a sub-classification of "microstates" (see below).

2. *Cut-off point around 1 million population.*

A number of opinions have been expressed, implicitly or explicitly, in favor of a cut-off point of around 1 million population.

- *Harris* (1970): 1 million population.
- *UNITAR* (1971): "The upper population figure of one million has been arbitrarily chosen, without attaching any magical value to it."
- *UNCTAD* Panel of Experts (1974): The cut-off point of statistical tables or island developing countries and territories is 1 million population.
- *World Bank* (1978 through 1983): In the World Development Indicators, published yearly as an appendix to the World Development Reports, separate tables are shown for UN/World Bank members identified as "small countries" and defined as those with a population of less than 1 million.
- *Dolman* (1982): "Small Islands" defined as having a population of less than 1 million, and a land area of less than 5,000 sq. miles (about 13,000 sq. km.).
- *Doumenge* (1983): Small islands are considered as those having a population of less than 1,200,000 and a surface area of less than 20,000 km².

3. *Low cut-off point.*

Authors mentioning relatively low sizes of population include:

- *Blear* (1967): 300,000 taken as the mark of a mini-territory".
- *de Smith* (1970): states or territories with populations of less than 150,000 are considered "very small".
- *Plischke* (1977): "Small states" (lower group) have populations ranging from 300,000 to one million; "micro- states" deemed to have populations of less than 300,000, with "Sub microstates" having less than 100,000.
- *Kohr* (1977): "optimum special size": 7,000 to 12,000; "optimum cultural society": 50,000 to 200,000; "political optimum": 10,000 to 200,000 and more. "As history has shown and logic suggests, a society numbering from 100,000 to 200,000 members seems sufficient to furnish (the summum bonum)."
- *Caldwell, J.C. et al.*, (1980): "microstates" defined as having populations of less than half a million in 1970. (However, some countries in the range of half a million to one million are also included in the discussion.)
- *Jalan* (1982): "Microstates" are mentioned as a sub-classification of small states. The cut-off points are: population 400,000; arable area 2,500 sq. km.; GNP 500 million dollars (1977.)
- *Commonwealth Secretariat Study Group* (1983): 'mini- states' defined as having populations of less than half a million.
- *Non-aligned Movement* (1983): small island developing countries have populations "typically less" than 400,000, and "rarely exceeding" one million; land masses of less than 700 km² and "rarely exceeding" 4000 km².

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